

*State  
Representative*  
**Sharon  
Tomiko  
Santos**  
*37th District*



**Olympia Office:**

436B Legislative Bldg.  
PO Box 40600  
Olympia, WA 98504-0600  
(360) 786-7944

**District Office:**

219 First Ave. S., Suite 205  
Seattle, WA 98104  
(206) 587-5549

**E-mail:**

Santos. SharonTomiko@leg.wa.gov

**Legislative Hotline:**

1-800-562-6000

**TDD (for hearing impaired):**

1-800-635-9993

**Web Site:** [http://www.](http://www.housedemocrats.wa.gov/members/santos)

[housedemocrats.  
wa.gov/members/  
santos](http://www.housedemocrats.wa.gov/members/santos)

**Legislative Assistant:**

Peggy Papsdorf

# Financial Resource Guide

Fall 2007

Dear Neighbor,

With autumn upon us, the days are growing short and our weather is turning wet and windy. Many of us are busily readying our homes for the cold winter months ahead: changing batteries in smoke alarms, insulating windows, doors and pipes, and restocking emergency supplies in case of a power outage.

Now is a good time to put our financial homes in order as well, ensuring that our households are prepared to weather changes in our economic conditions whether good or bad.

As a member of the Insurance, Financial Services and Consumer Protection committee, I want consumers to be well-informed about the financial products and services available to us. Being “financially literate” is important, but the information available can be overwhelming. This newsletter focuses on giving you information to help you navigate the often complicated world of consumer finance. I hope it is a useful resource for you.

As always, I welcome your phone calls and emails. I appreciate hearing from you, so please keep in touch.

Sincerely,

A handwritten signature in cursive script that reads "Sharon Tomiko Santos".

Sharon Tomiko Santos  
State Representative, 37<sup>th</sup> District



## Banking 101

**Financial institutions** provide a wide range of checking, savings, investment, and credit products and services that are essential to daily living. Still, as many as **28 million people** in the United States do not have an account relationship with a financial institution – often, by choice.

The reasons are various, ranging from a mistrust of banks to language and cultural barriers to a belief that one must be wealthy to have an account. Being “unbanked,” however, can be risky and expensive. In the absence of a relationship with a financial institution, many consumers turn to check cashing businesses or to payday lenders for basic financial services and often pay high fees for simple transactions. In addition, “unbanked” consumers may carry large sums of cash, increasing their risk for potential loss or theft. Even consumers who maintain account relationships with financial institutions may not be familiar with the complexities and the safeguards we have in this key sector of the economy. Here are a few simple things to know:



- ✓ Our country has a **dual banking system**, allowing banks to choose either a state or federal charter. A **state-chartered bank** is governed by state regulators, whereas a **nationally-chartered bank** is regulated by a federal supervisor. Although Congress mandates the agenda for nationally-chartered banks, they are still privately controlled and managed. **Knowing who regulates your bank is important if you want to file a complaint.**
- ✓ Banks are not the only places where consumers can deposit money, cash checks or obtain loans and credit. Other types of financial institutions include **credit unions, savings and loan associations, and brokerage firms**. These, too, are regulated at either the state or the federal level. **Again, know who regulates your financial institution. If you are not sure, ask.**
- ✓ **Check cashing businesses** or “**payday lenders**” must be licensed to do business in Washington, but are *not* regulated the same way as banks and credit unions. These businesses may charge significantly higher fees and interest rates for products and services and are not appropriate for long-term consumer borrowing.

## What About Credit?

Credit is a valuable financial tool. Credit allows consumers to buy expensive items – like cars or large appliances – and to pay the cost (with interest) over time. Yet, if not managed wisely, credit can be dangerous and can lead individuals into debt beyond their ability to repay. Even if you pay your monthly credit bills on time, having or using too much credit can damage your **credit score**.



### **Credit Score – It’s not just a number!**

Your credit score – also called a FICO score – can affect everything from the rates you pay for insurance to your ability to obtain employment. Scores range from **350 to 850**. A lower score indicates a greater “risk” to lenders. A higher score often means you get better terms and interest rates on loans.

### **Be informed - know the score**

The Fair Credit Reporting Act entitles you to one free credit report disclosure in a 12 month period from each of the three **credit reporting agencies – Equifax, Experian and TransUnion**. To request this free annual disclosure you must contact the Central Source either online at [www.annualcreditreport.com](http://www.annualcreditreport.com) or toll free by phone at 1-877-FAC-TACT. AnnualCreditReport.com is **the official site** to help consumers to obtain their free credit report. Be wary of offers from other websites for a “free” credit report that require you to subscribe to a credit monitoring service or that otherwise charge a fee. **“Free credit report” means you don’t have to pay for it!**

## Mortgages – As rates go up, payments rise too

When **Adjustable Rate Mortgage (ARM)** interest rates reset, many homeowners will see a marked increase in their monthly mortgage payment and may find that the higher payment presents a financial hardship. The inability to make a mortgage payment puts consumers at risk of **foreclosure**.

**Owning a home, and keeping it, is part of the American Dream. If you are facing foreclosure, here are six important points to remember:**

- ✓ If you get behind on your payments, call or write your mortgage lender immediately.
- ✓ Stay in your home to make sure you qualify for assistance.
- ✓ Arrange an appointment with a housing counselor to explore your options.
- ✓ Cooperate with the counselor or lender trying to help you.
- ✓ Beware of foreclosure rescue scams or “quick fixes” that sound too good to be true.
- ✓ **Important** ➔ Don’t sign anything you don’t understand.





## Rep. Sharon Tomiko Santos 37th Legislative District

### Glossary of Frequently-Used Mortgage Lending Terms

**Adjustable Rate Mortgage (ARM)** - A mortgage loan subject to changes in interest rates. When rates change, ARM monthly payments increase or decrease at intervals determined by the lender, usually subject to a cap.

**Conventional Loan** - A private sector loan that is not guaranteed or insured by a U.S. government agency such as the Veterans Administration (VA) or the Federal Housing Authority (FHA).

**Default** - Failure to perform a legal obligation, including failure to pay a financial obligation.

**Delinquency** - Failure of a borrower to make timely loan payments as agreed.

**Equity** - The difference between the market value of a property and the sum of the outstanding loan balance plus all other liens on the property. For example: if your property is worth \$130,000 but you owe \$100,000 in loans and liens, then you have \$30,000 of equity.

**Fixed-Rate Mortgage** - A mortgage with loan payments that remain the same throughout the life of the loan because the terms are fixed and do not change. This does not account for changes in property tax assessments or other escrow items which also affect the amount of a monthly payment.

**Foreclosure** - The legal process to seize a property if a borrower fails to keep up your payments.

**Home Equity Loan**, also known as **HELO** - Describes any mortgage loan that is *not* used to finance the principal purchase of the home. Depending upon the terms of the contract, the borrower's home is in jeopardy if the borrower fails to make payments.

**Lien** - A legal claim filed against a property that must be repaid when the property is sold. With a mortgage, the lender has the right to take the title to the property if the borrower does not make the payments due on the mortgage.

**Loan-To-Value (LTV) Ratio** - The proportion of the amount borrowed to the market price or appraised value of the property. A larger down payment reduces the LTV ratio.

**Subprime Loan** - A loan provided at rate that is higher than the "prime" rate offered for conventional loans. Typically, subprime loans are for individuals who may have poor or no credit history, or who have other characteristics that allow a higher rate to be charged.

**Truth-in-Lending Act (TILA)** - A federal law that requires lenders to provide consumers with a truth-in-lending statement - including the total cost of credit, the annual percentage rate (APR), and other specific terms of the loan.

### Alternatives to Foreclosure

**Special Forbearance.** Your lender may be able to arrange a repayment plan that is based upon your current financial situation and may even provide for a temporary reduction or suspension of your payments. You may qualify for this if you've recently experienced an involuntary reduction in income or an increase in living expenses.

#### Mortgage

#### Modification.

You may be able to refinance the debt and extend the term of your mortgage loan. This will help you catch up by possibly reducing the monthly payments to a more affordable level. You may qualify if you've recovered from a financial problem but your net income is less than it was before the default.



**Partial Claim.** If you qualify, your lender may be able to work with you to obtain an interest-free loan from the US Dept of Housing & Urban Development to bring your mortgage current.

**Pre-Foreclosure Sale.** If you are not able to afford your mortgage payments in the long-term, you may be able to sell your property before a foreclosure sale. This will allow you to avoid foreclosure and may enable you to pay off your loan, save some of your equity, and prevent significant damage to your credit rating.

**Deed-in-lieu of foreclosure.** As a last resort, you may be able to voluntarily "give back" your property to the lender. This won't save your house, but may help your future chances of getting another mortgage loan.



# Directory of Financial Regulators

If you need more information or would like to file a complaint about a financial institution, please contact the appropriate regulator or agency listed below.

## **Federal**

### **NATIONAL CREDIT UNION ADMINISTRATION (NCUA)**

**[www.ncua.gov](http://www.ncua.gov)**

NCUA is an independent federal agency that charters and supervises federal credit unions and that insures deposits in federal and most state-chartered credit unions across the country. NCUA maintains a 24-hour toll-free consumer complaint line at **1-800-755-1030**.

### **OFFICE OF THE COMPTROLLER OF THE CURRENCY (OCC)**

**[www.occ.treas.gov](http://www.occ.treas.gov)**

As an agency within the US Department of the Treasury, the OCC charters, regulates, and supervises more than 2,500 national banks to ensure a safe, sound and competitive national banking system. The OCC also supervises federally licensed branches and agencies of foreign banks. Consumers may make inquiries and file complaints by calling the toll-free telephone number:

**1-800-613-6743.**

### **OFFICE OF THRIFT SUPERVISION (OTS), [www.ots.treas.gov](http://www.ots.treas.gov)**

OTS serves as the primary regulator of all federal as well as many state-chartered thrift institutions, including savings banks and savings & loan associations. To make an inquiry or to file a complaint, contact the regional OTS office in San Francisco at **1-650-746-7000** or Consumer Affairs in Washington, D.C. at **1-800-842-6929** toll-free.

### **FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC), [www.fdic.gov](http://www.fdic.gov)**

The FDIC is an independent federal agency that insures deposits up to \$100,000 and retirement accounts up to \$250,000 in banks and thrift institutions. Created in response to widespread bank failures in the early 1930s, the FDIC examines and supervises banks to ensure the safety and soundness of the financial marketplace. To obtain information about how to make an inquiry or file a complaint, telephone the FDIC Consumer Response Center toll-free at **1-877-275-3342**.

### **US DEPARTMENT OF Housing AND Urban Development (HUD)**

**[www.hud.gov](http://www.hud.gov)**

HUD's mission is to increase homeownership, support community development, and increase access to affordable housing free from discrimination. Please call the toll-free telephone number provided with each category to request information about filing a complaint:

#### **Housing Discrimination:**

**1-800-669-9777**

#### **Bad Landlords in Federal Housing:**

**1-800-685-8470**

#### **Manufactured Housing:**

**1-800-927-2891**

To request information on filing complaints involving **Land Sales** or **Deceptive Contractors**, call HUD in Washington, D.C. at **1-202-708-1112**.

### **FEDERAL TRADE COMMISSION (FTC), [www.ftc.gov](http://www.ftc.gov)**

The Federal Trade Commission provides oversight for many consumer protection

laws including truth-in-advertising, anti-price fixing, telemarketing sales, and the Equal Credit Opportunity Act. For information on how to file a complaint with the FTC, call **1-877-382-4357**.

## **State**

### **THE DEPARTMENT OF FINANCIAL INSTITUTIONS (DFI)**

**[www.dfi.wa.gov](http://www.dfi.wa.gov)**

The Department of Financial Institutions regulates the financial services industry in Washington, including state-chartered banks and credit unions, mortgage brokers, consumer loan companies, securities issuers and salespeople. Go on-line or call toll-free **1-877-746-4334** for consumer information about credit, identity theft, investment scams, and more.

### **OFFICE OF THE INSURANCE COMMISSIONER (OIC)**

**[www.insurance.wa.gov](http://www.insurance.wa.gov)**

The Office of the Insurance Commissioner regulates the insurance industry in Washington state. Insurance-related complaints may be reported to the OIC consumer hotline at **1-800-562-6900**.

### **ATTORNEY GENERAL (ATG)**

**[www.atg.wa.gov](http://www.atg.wa.gov)**

The State Attorney General's Office protects consumers against fraud. You can file a consumer complaint by calling **1-800-551-4636** or filling out a form on their website. If you are unsure about whether to file a complaint, call 1-800-551-4636 or 1-800-833-6384 for the hearing impaired.

*Some of the information in this guide is used with permission from the Washington Department of Financial Institutions.*

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P. O. Box 40600  
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